SUMMARY


Retaining customers by forming lifelong relationship with them is the goal of Loyalty Reward Program. This dissertation explores the effectiveness of Frequent Flyer Program (FFP) as one of the Loyalty Reward Programs, and how the FFP transforms into financial value and non-financial value outcomes. Financial aspect of customer value to the organization is measured by purchasing behavior using CLV approach. Relational Worth is defined as the non-financial behaviors that contribute to the source of a customer’s value. To aid this undertaking, the modeling used relational benefit, relationship quality, and relational outcome approaches.

The type and nature of reward benefits were explored by means of the relationship to a consumer engagement to the organization and the participation of consumer in the relational program. A three-component model of customer commitments and satisfaction were explored in relationship to a customer’s social behavior outcome. The variable of relationship quality differentially influenced those citizenship-like, non-financial customer behaviors aggregated into the construct of relational worth.

The study was divided into sections. The first section examined the financial value of the customers to the company. The second part discussed about non-financial value of the customers to the company.

Financial value of customers was analyzed using CLV approach. Modeling of financial value of the members to the airline was developed by performing regression analysis of CLV against RFM and the associated socio-demographic characteristics of the members. This study used secondary data of customer profiles and financial transactions of the Garuda Frequent Flyer members in 2012. The empirical findings observed in this study explain that the financial value of the frequent flyer members to the airline was influenced by RFM, Gender, Age, and Frequent Flyer Tier levels. It was also found that the RFM valuation was aligned with CLV analysis. The result contributes to the knowledge of aviation loyalty program by improving the effectiveness from the aspect of capitalizing on the lifetime value of the members, and to the industry in designing proper marketing strategy and implementing accurate marketing functions in term of Frequent Flyer Program.

The second part of the study examined the influence of reward benefits to relational worth in a real-world setting. The hypotheses were empirically tested with a sample of FFP members of respected airline. Online survey was conducted (n=475). The data were statistically analyzed using structural equation modeling (SEM). Results indicate that perceived rewards generate higher value of relational worth through commitment and satisfaction than a direct relationship. Furthermore, the study found that perceived social rewards lead to affective and normative commitment as well as consumers’ satisfaction, while economic reward did not have an effect on developing affective bonds with members for long-term
relationships. Relational benefit offered through FFP creates affectively and normatively committed members who produce relational behaviors, in terms of WOM, immunity, openness and acquiescence of the members to the airline. Furthermore, FFP members produce social behaviors toward the airline when they felt satisfied in their relational exchanges. The testing on interactive effect of perceived reward type, reward policy and customer involvement on the relationship quality between customer and organization found that informational reward policy and high customer involvement have an enhancing effect on all commitment types, regardless of reward type. Commitments are more influenced by social rewards than economic rewards.

The results of the study have implications for relational program design in term of what types of rewards are offered and how rewards are offered to customer for maximum effectiveness. Additionally, the industry gets guidance in designing proper marketing strategy and implementing accurate marketing functions in term of Frequent Flyer Program. In terms of social behaviors of customer to organization that was previously overlooked, the study indicated that relational worth considered as a potentially great source of customer value. The study suggests that in addition to different outcome of financial revenue, relational programs may produce different customers in terms of their relationship quality type, and in turn different forms of relationship quality may produce very different customers in term of relational worth. The inclusion of relational worth as a measure of a customer's value to an organization could potentially add significant understanding of which customers a company should work hard at retaining for maximum profitability.

Keywords: Customer Lifetime Value (CLV), RFM, Loyalty Reward program, Relationship Quality, Relational Worth